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REVIEWS

The English Bank Restriction and the Bullion Report of June 8, 1810. Reprinted from Sumner's "*History of American Currency,*" with an introduction by Stuyvesant Fish. New York, Henry Holt and Company, 1920. Pp. vii, 136.

Probably no economic happening since the armistice has been the source of such dramatic interest as the fall in our rates of exchange with the various European countries. For a time we heard from all sides that something would have to be done to remedy the situation or else our huge export trade, built up during the war, could not possibly continue. European buyers, it was argued, could not afford to purchase our goods if they were compelled to lay out such unheard of sums of pounds, francs, or lire for United States dollars. Events since the first fall in the exchanges proved the unsoundness of these predictions, for in spite of the continued high price of dollars in terms of European currencies our exports until quite recently showed no decline. In fact the statistics for the fiscal year 1920 show an increase over those for 1919. Even now, however, we come across numerous references to the handicap to our export business caused by the abnormal state of the exchanges. Almost all such predictions are the result of a failure to comprehend the real factors responsible for the present rates of exchange.

When an existing economic condition duplicates the experience of a previous era and that prior experience has been carefully examined and brilliantly analyzed, it is helpful in endeavoring to throw light on present problems to have before us the study made of the events of that earlier age. This accounts for the reprinting at this time of the now classic report of the Bullion Committee of 1810* for an understanding of the conditions that gave rise to that report and of the fundamental principles therein set forth would do much to dissipate the mists that enshroud the present exchange situation in many minds.

In 1797, on account of the drain of gold from the Bank of England, an Order in Council was issued forbidding specie payment until the will of Parliament should be known. Thereafter this restriction was continued by Parliament from time to time so that specie payments were not completely resumed till 1821. For several years prior to the report of the Bullion Committee there had existed a premium on gold in terms of notes of the Bank of England and the exchanges between England and continental points, such as Hamburg, Amsterdam, and Paris, had been adverse to England. The Bullion Committee was appointed to inquire into the causes of these phenomena. The conclusions of the Committee were that both the high price of bullion and the adverse exchanges were the result of the depreciation of the notes of the Bank of England and that this depreciation in turn was caused by the excessive issue of the notes. Resumption of specie payments was recommended by the Committee as the best preventive against the continuation of the excess of bank notes.

The present reprint contains the complete text of the Bullion Report which was included as an appendix to Professor Sumner's *History of American Currency,* published in 1874. The other portion of the reprint is made up of Chapter II of the history and of a brief introduction written by Stuyvesant Fish. In Chapter II Professor Sumner reviews the conditions leading up to the appointment of the Committee, summarizes its findings, and gives a brief account of the parliamentary debates over the report both in 1811 when its conclusions were repudiated and in 1819 when they were overwhelmingly accepted.

*An English reprint of the Report with an introduction by Professor Edwin Cannon was also published in 1919 under the title, *The Paper Pound of 1797–1821.*

In the hearings conducted by the Committee practically all the witnesses insisted that the adverse exchange rates of that day were due to an adverse balance of trade or of payments. This reminds us of the reasons frequently adduced in explanation of the present rates of exchange between the various European countries and the United States. In spite of this testimony, however, the Committee came to the conclusions summarized above.

Mr. Fish in his introduction refers to this experience in English monetary history as a "forgotten incident of vast present moment." Certainly the fundamental reasonings of the Bullion Committee in explanation of the events of that day are very pertinent in any investigation of the present exchange rates. Just as in 1810 the explanation was to be found in the depreciation of the Bank of England note, so today the low value of the currencies of European countries in terms of United States dollars is to be ascribed primarily to the depreciation of those currencies, of which in turn the chief cause is to be found in the excessive issue of paper money in those countries, although the falling off of production is also a factor of importance. The present case is far more extreme than that of 1810, but the underlying principles are the same. Once these principles are grasped, it is seen why Europeans may continue to buy from us in spite of the high cost of dollars. Dollars cost more in pounds, francs, or lire than under normal conditions, but on the other hand, thanks to the enormous issues of paper currency, more pounds, francs, or lire are available to purchase the dollars, and the increased price of dollars is principally a reflection of the decreased value of the foreign currencies in their own countries as indicated by the increased price of commodities in general within those countries. Of course in making statistical comparisons allowance must be made for the decreased purchasing power of the dollar itself. We, too, have had our inflation.

The manner in which exchange rates tend to reflect the comparative purchasing power of various currencies is illustrated by the statistics following:

COMPARISON OF PRICE LEVELS WITH RATES OF EXCHANGE AT NEW YORK (AVERAGE FOR THE SIX MONTHS, JANUARY-JUNE, 1920)

Country	Index number of wholesale prices* [1913–100]	Exchange rate at New York			Purchasing power of currency as compared with that of U. S., Jan.–June, 1920
		Mint par	Average of monthly high and low rates, January–June, 1920		
			Actual Rate†	Percentage of mint par	
United States	259			100.0	100.0
United Kingdom	303	4.8665‡	3.73	76.6	85.5
Sweden	349	26.80§	20.57	76.7	74.2
France	532	19.30‖	7.33	37.9	48.7
Italy	605	19.30¶	5.56	28.8	42.8

* *Federal Reserve Bulletin*, August, 1920, p. 842
† *Ibid.*, April, 1920, p. 437 and July, 1920, p. 763.
‡ Dollars for £.
§ Dollars for 100 kronor.
‖ Dollars for 100 francs.
¶ Dollars for 100 lire.

The last two columns of the table show the value of the currency of each country as compared with that of the United States, first, as indicated by exchange rates, and second, as indicated by price levels. Thus in 1913 when exchange between the United States and England was about at mint par, the value of the two currencies, taking into consideration the different gold contents of the standard money in the two countries, was approximately equal; but during the first six months of 1920 the value of the currency of England—no longer on a gold standard—was only 76.6 per cent of that of the United States as shown by the rate of exchange.

Again, looking at the question from the viewpoint of internal price levels in the two countries, it is to be noticed that the increase in prices in the United States between 1913 and the first half of 1920 is represented by the change in the index number from 100 to 259; while the increase in the United Kingdom was from 100 to 303. Or stating the proposition in terms of the purchasing power of the two currencies, in the United States the purchasing power in 1920 was $\frac{100}{259}$ of that in 1913, and in the United Kingdom it was $\frac{100}{303}$ of that in 1913. Therefore, if in 1913 the purchasing power of English currency was 100 per cent of that of the United States, in 1920 the former as compared with the latter was $\frac{\frac{100}{303}}{\frac{100}{259}}$ or 85.5 per cent. This equivalence in the value of two currencies as indicated by their comparative purchasing powers has been called by Professor Cassel their "purchasing power parity." Since the breakdown of the gold standard in European countries these purchasing power parities, instead of the old mint pars, constitute the real normal rates of exchange toward which the actual rates will constantly tend. For instance, if the actual rate of exchange in New York on London were to fall much below the purchasing power parity of the currencies in the respective countries, the effect would be to discourage exports from the United States or to encourage imports, which in turn would cause an appreciation of the rate.

The figures in the last two columns show that for the United Kingdom, Sweden, France, and Italy, considerable similarity in results is obtained whether the depreciation of the value of the currencies of those countries as compared with the currency of the United States is measured by means of exchange rates or of price levels. In all cases, however, except that of Sweden, a greater depreciation is indicated by exchange rates than by price levels. In other words, the actual rates of exchange in New York on these countries during the period under consideration showed a depreciation below the purchasing power parities of their currencies with that of the United States. Such an excessive depreciation of the actual exchange rates may be accounted for in part by certain factors mentioned by Professor Cassel, namely, "distrust in the future of a monetary standard, outselling of the money of a country at any price when foreign credits cannot be secured, export of money in order to evade exorbitant taxes at home, etc."

In addition, however, attention must be called to the fact that the index numbers by means of which the comparison of purchasing powers has been made are not altogether satisfactory for the purpose. These index numbers should be based only upon commodities that are the objects of international trade. It is only commodities of this sort that under normal conditions such as existed before the war may be expected to show the same gold prices in different countries, allowing for differences

due to transportation costs and tariff barriers. The numbers used, however, are general index numbers, based upon all kinds of commodities, some of which do not figure in international trade and whose gold prices even under normal conditions might consequently show wide variations in different countries. It may well be the case that the prices of some of these domestic commodities in the United Kingdom, France, and Italy have not increased in the same ratio as the prices of what we may call the international commodities. This would make an index number including such domestic commodities show a smaller increase than would appear if only the international commodities had been used. Under these circumstances, the rate of exchange in New York on London, for example, might be considerably below a purchasing power parity calculated upon the basis of general index numbers without causing any decreased exports from the United States or imports from England, because the international commodities might be just as expensive in England as in the United States, while the comparatively cheap commodities in England might be non-exportable.

In spite of these defects in the index numbers, however, the similarity of the figures in the last two columns is great enough to suggest that the present exchange rates are the result of something more fundamental than a balance of trade or payments, that the real explanation is to be sought in the depreciation of the European currencies as compared with our own currency, and that the principles enunciated by the Bullion Committee are applicable to the present situation. Professor Cassel's theory of purchasing power parities represents a valuable amplication of the theory of the Committee.

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Military and Naval Insurance, June 30, 1919. Bureau of War Risk Insurance, Treasury Department, Government Printing Office, Washington, 1920. Pp. 162.

There has just been issued by the Treasury Department a statistical report compiled by the Actuarial Division of the Bureau of War Risk Insurance under the direction of Mr. William Macfarlane. The document is interesting not only because it is the first official analysis of a large part of our casualties of the World War, but also because it is the first scientific presentation of facts relating to the mortality experienced by one of the most interesting experiments in government insurance which has been tried by any country.

It will be recalled that shortly after we entered the war, the War Risk Insurance Act was amplified in order to accomplish three purposes:

(a) To provide compensation for the soldiers and sailors and their dependents along the lines of the Workmen's Compensation Acts in force for industrial employees throughout the country.

(b) To enable the soldiers and sailors to obtain insurance protection without the payment of the additional war premium which the commercial companies felt compelled to charge in many cases.

(c) To provide a substitute for the pensions which have always followed in the wake of wars in this country and which are proving a financial burden years after the termination of hostilities.*

* In an investigation which the writer made for the government, the results of which are published as Children's Bureau Publication No. 28, Department of Labor, it was pointed out that in 1916 the government was still paying pensions to 709,572 pensioners.